

Message Text

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PAGE 01 MONTRE 00754 112153Z
ACTION EUR-12

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FM AMCONSUL MONTREAL
TO SECSTATE WASHDC PRIORITY 8947
INFO AMEMBASSY OTTAWA
AMCONSUL QUEBEC
AMCONSUL TORONTO BY POUCH

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E. O. 11652: N/A
TAGS: EFIN, CA
SUBJ: HYDRO QUEBEC PLACES PUBLIC BOND ISSUE

1. SUMMARY: IN FIRST PUBLIC ISSUE SINCE NOVEMBER ELECTION OF PARTI QUEBECOIS, HYDRO QUEBEC SOLD \$100 MILLION OF TWENTY YEAR BONDS IN CANADA YESTERDAY. SALE OF BONDS IN CANADA WAS SURPRISE AS HYDRO WAS IN MIDST OF PLACING \$50 MILLION MEDIUM TERM ISSUE IN EURODOLLAR MARKET. PLANS FOR EUROPEAN PLACEMENT HAD TO BE DROPPED AT LAST MINUTE, HOWEVER, IN VIEW OF RAPID DETERIORATION OF EURODOLLAR MARKET. RECEPTION OF ISSUE IN CANADA WAS REPORTED TO BE EXCEPTIONALLY GOOD, AS ISSUE WAS FULLY SUBSCRIBED, AND UNDERWRITERS SAY THEY COULD HAVE PLACED LARGER AMOUNT WITH PUBLIC. ISSUE, CARRYING A 10 O/O COUPON, WENT OUT AT 99 AND ONE-QUARTER TO YIELD 10.09 O/O, MOVED UP IMMEDIATELY, AND TODAY IS QUOTED AT 99 AND THREE-QUARTERS. HYDRO-QUEBEC OFFICIALS AND LOCAL UNDERWRITERS DO NOT BELIEVE HYDRO SUFFERED SET BACK IN PULLING OUT OF EURODOLLAR MARKET, AS INTERNATIONAL FINANCIAL COMMUNITY IS WELL AWARE OF MARKET CONDITIONS WHICH LED TO SUCH ACTION. WE HAVE ALSO LEARNED THAT PROVINCE OF QUEBEC HAS BEGUN NEGOTIATIONS
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PAGE 02 MONTRE 00754 112153Z

FOR \$150 MILLION DEUTSCHMARK ISSUE. END SUMMARY.

2. HYDRO QUEBEC HAD INTENDED TO BEGIN ITS FINANCING OPERATIONS FOR CURRENT YEAR BY PLACING RELATIVELY SMALL 50 MILLION EURODOLLAR ISSUE TO BRING HYDRO'S NAME BACK ON EUROPEAN MARKET. TERMS OF PROPOSED ISSUE HAD BEEN SET FOR SIX YEARS, WITH 7.75 COUPON. INVITATIONS TO BID WERE SENT OUT ON THURSDAY, MAY 5. PLANS WERE

UPSET, HOWEVER, ON FRIDAY WHEN PRICE OF A NEW BRITISH COLUMBIA HYDRO ISSUE, WHICH HAD BEEN PRICED EARLIER IN WEEK AND WHICH WAS BEING HANDLED BY SAME UNDERWRITING SYNDICATE, FELL TO AROUND 97, PROVIDING YIELD OF ABOUT 8.25 O/O. UNDER SUCH CIRCUMSTANCES HYDRO QUEBEC HAD OPTIONS OF CONTINUING WITH ISSUE ON PREVIOUSLY SET TERMS AND ACCEPTING SUBSTANTIAL PRICE DISCOUNT; RAISING COUPON RATE; OR PULLING ISSUE BACK.

3. HYDRO CHOSE TO PULL ISSUE BACK SINCE IT FOUND PRICE TOO HIGH FOR SIX YEAR MONEY. SINCE HYDRO TOOK DECISION ON MONDAY, AND BUYERS HAD UNTIL TUESDAY TO RESPOND TO INVITATIONS, HYDRO OFFICIALS SAY DECISION HAD NOTHING TO DO WITH LACK OF DEMAND BY EUROPEAN MARKET. THEY CALLED GROSSLY INACCURATE STATEMENT IN TORONTO GLOBE AND MAIL THAT ISSUE HAD BEEN PULLED FROM EURO BOND MARKET BECAUSE OF LACK OF RESPONSE. INVESTMENT BANKERS SAY IT WOULD HAVE BEEN INSANE FOR HYDRO TO STAY IN MARKET, AS IT WAS IN POSITION WHERE IT COULD MAKE CLEAN BREAK.

4. SOURCES HERE BELIEVE THAT HYDRO QUEBEC WOULD HAVE HAD NO PROBLEM IN EUROPE, HAD ISSUE COME TO MARKET A LITTLE EARLIER. HYDRO, HOWEVER, HAD BEEN FORCED TO WAIT AS RELEASE OF 1976 FINANCIAL STATEMENT HAD BEEN DELAYED AT PRINTERS. ACCORDING TO REPRESENTATIVES OF FINANCIAL COMMUNITY HERE, RAPID DETERIORATION OF MARKET IN EUROPE HAD BEEN CAUSED BY SEVERAL FACTORS, WITH HEAVY ISSUE INVENTORY, AMOUNTING TO SOME 25 ISSUES, PROBABLY PRINCIPAL FACTOR. RELEASE BY US OF M1 AND M2 FIGURES, WHICH PUSHED SHORT TERM INTEREST RATES UP IN NEW YORK AND LONDON MARKETS, WAS ALSO REPORTED TO BE A FACTOR.

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PAGE 03 MONTRE 00754 112153Z

5. DECISION TO PLACE BOND ISSUE ON CANADIAN MARKET WAS TAKEN LATE MONDAY AFTERNOON, AFTER FRIDAY'S CUT IN BANK RATE HAD OPENED UP CANADIAN MARKET. AFTER PRICING WAS FINALIZED ON TUESDAY, ISSUE WAS IMMEDIATELY SOLD OUT, WITH QUEBEC'S CAISSE DE DEPOT AND HYDRO-QUEBEC'S PENSION FUND TAKING \$55 MILLION AND \$5 MILLION, RESPECTIVELY. DEALERS REPORT THAT THEY COULD EASILY HAVE PLACED MORE THAN THE \$40 MILLION LEFT FOR THE PUBLIC. SOME OF THE ISSUE WAS REPORTED TO HAVE BEEN TAKEN BY AMERICAN AND EUROPEAN INSTITUTIONS WITH REQUIREMENTS FOR CANADIAN ASSETS. PRICING WAS REPORTED TO BE IN LINE WITH MARKET, CARRYING NORMAL SMALL CONCESSION OF 5 TO 10 BASIS POINTS FOR A NEW ISSUE AND TO COVER RUMORED POSSIBILITY OF SEVERAL LARGE ISSUES REACHING MARKET AT SAME TIME.

6. OPINION HERE IS THAT HYDRO-QUEBEC SUCCEEDED IN ESTABLISHING CREDENTIALS IN ITS OWN CANADIAN MARKET, AND THAT THIS WOULD BENEFIT STANDING IN INTERNATIONAL MARKETS. HYDRO-QUEBEC REMAINS CAUTIOUS IN ITS APPROACH TO US CAPITAL MARKET, NOT WISHING TO MAKE MOVE UNTIL IT IS SURE CONDITIONS ARE FAVORABLE. GENERAL MANAGER OF

FINANCE IS CURRENTLY IN US FOR SEVERAL DAYS TO MEET WITH REPRESENTATIVES OF FINANCIAL COMMUNITY.

7. WE ALSO LEARNED TODAY THAT PROVINCE OF QUEBEC HAS BEGUN NEGOTIATIONS TO PLACE \$150 MILLION DEUTSCHMARK ISSUE. PRESENT PLANS CALL FOR 10 YEAR ISSUE, WITH 7 AND ONE QUARTER COUPON. FINAL PRICING, HOWEVER, WILL PROBABLY NOT BE SET FOR ANOTHER TWO WEEKS. WHILE IT IS RISKY TO MAKE COMPARISONS, INTEREST RATE SPREAD BETWEEN DEUTSCHMARK AND CANADIAN DOLLAR ISSUES PROBABLY EXCEEDS TWO PERCENTAGE POINTS, WITH BORROWERS ASSUMING SUBSTANTIAL RISKS ON CHANGES IN EXCHANGE RATE. NEVERTHELESS, WILLINGNESS OF FINANCIAL COMMUNITY TO PROCEED WITH QUEBEC ISSUE WAS SEEN BY ONE SOURCE AS PROVIDING CONFIRMATION THAT HYDRO PULL OUT WAS DUE TO MARKET CONDITIONS AND NOT TO CONCERN IN UNDERWRITING COMMUNITY OVER DIFFICULTIES OF PLACING QUEBEC ISSUES.
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